

**MOULTON-UDELL COMMUNITY SCHOOL DISTRICT
MOULTON, IOWA**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

June 30, 2004

**Peak & Gerdes, LLP
Certified Public Accountants
103 Benton Avenue East
Albia, Iowa 52531**

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Moulton-Udell Community School District

Officials

<u>NAME</u>	<u>TITLE</u>	<u>EXPIRES</u>
<u>Board of Education</u> (Before September, 2003 Election)		
Marian Korthaus	President	2005
Melanie Guinn	Vice-President	2003
Randy Welch	Board Member	2005
Wayne Hetzler	Board Member	2003
Rodger Kaster	Board Member	2004
<u>Board of Education</u> (After September, 2003 Election)		
Marian Korthaus	President	2005
Rodger Kaster	Vice-President	2004
Randy Welch	Board Member	2005
Dan Jay	Board Member	2006
Jerilyn Inman	Board Member	2006
<u>School Officials</u>		
Rich Turner	Superintendent	2004
Marilyn Wood	District Secretary/Treasurer/ Business Manager	2004
Richard Gaumer	Attorney	2004

Moulton-Udell Community School District

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CERTIFIED PUBLIC ACCOUNTANTS
103 BENTON AVENUE EAST
ALBIA, IOWA 52531

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Moulton-Udell Community School District

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Moulton-Udell Community School District, Moulton, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Moulton-Udell Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principals.

As described in Note 12 to the financial statements, during the year ended June 30, 2004, Moulton-Udell Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated September 3, 2004 on our consideration of Moulton-Udell Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 16 and 41 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Moulton-Udell Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP
Certified Public Accountants

September 3, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Moulton-Udell Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$2,235,495 in fiscal 2003 to \$2,235,190 in fiscal 2004, while General Fund expenditures increased from \$2,107,964 in fiscal 2003 to \$2,239,353 in fiscal 2004. The District's General Fund balance decreased from \$339,581 in fiscal 2003 to \$335,418 in fiscal 2004, a 1.2% decrease.
- The decrease in General Fund revenues was attributable to financial crises facing the state and resulting across the board reduction in state aid after the commencement of the budget year. A state law diminishing the budget guarantee for students with declining enrollment by 10% each year and Moulton-Udell's decreasing enrollment will result in similar or larger decreases in general fund revenue for several years. The increase in expenditures was due primarily to purchasing supplies and equipment earlier in the school year and increasing educational programs for the students of Moulton-Udell. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.
- In Iowa, the board of directors of a local school district have more discretion in controlling cash balances through the cash reserve levy than they do the spending authority, therefore in many ways the unused spending authority is a more valid measure of a school district's financial health than the cash reserves. Moulton-Udell's unused spending authority increased almost \$24,000 at the end of fiscal 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Moulton-Udell Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Moulton-Udell Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Governmental Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Sample GASB 34 Community School District Annual Financial Report

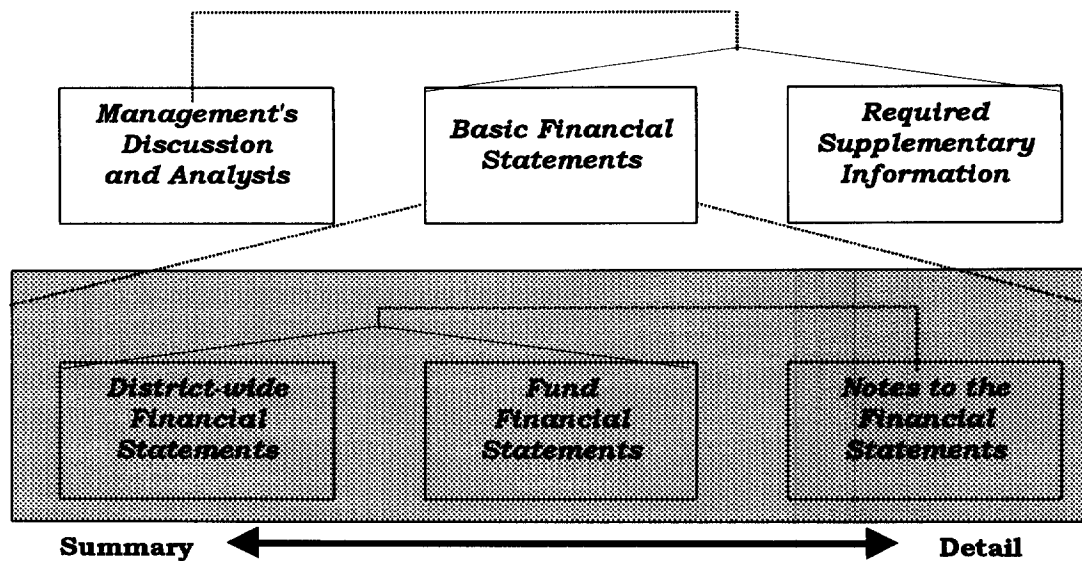


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs.
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received and paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or

decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Debt Service Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include the Agency Funds.

- *Agency Funds* – These are funds which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2004.

Figure A-3 Combined Statement of Net Assets (Expressed in Thousands)			
	Governmental Activities	Business type Activities	Total District
	June 30, 2004	June 30, 2004	June 30, 2004
Current and other assets	\$ 1,731	\$ 21	\$ 1,752
Capital assets	1,018	9	1,027
Total assets	2,749	30	2,779
Long-term liabilities	51	-	51
Other liabilities	1,318	-	1,318
Total liabilities	1,369	-	1,369
Net assets			
Invested in capital assets			
net of related debt	966	9	975
Restricted	34	-	34
Unrestricted	380	21	401
Total net assets	\$ 1,380	\$ 30	1,410

The District's combined net assets decreased by nearly 3%, or approximately \$42,000, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$6,600 over the prior year. The decrease was primarily a result of increased expenditures in the Physical Plant and Equipment Levy Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$4,000, or 1%. This reduction in unrestricted net assets was the result of the District using carryover fund balances to meet its financial obligations during the year.

Figure A-4 shows the change in net assets for the year ended June 30, 2004.

Figure A-4 Changes in Net Assets (Expressed in Thousands)			
	Governmental Activities	Business type Activities	Total District
Revenues:			
Program revenues:			
Charges for service	\$ 257	34	291
Operating grants, contributions and restricted interest	329	57	386
General revenues:			
Property tax	705	-	705
Income surtax	46	-	46
Unrestricted state grants	989	-	989
Unrestricted investment earnings	12	-	12
Other	16	-	16
Total revenues	<u>2,354</u>	<u>91</u>	<u>2,445</u>
Program expenses:			
Governmental activities:			
Instruction	1,647	-	1,647
Support services	644	-	644
Non-instructional programs	-	88	88
Other expenses	108	-	108
Total expenses	<u>2,399</u>	<u>88</u>	<u>2,487</u>
Change in net assets	<u>\$ (45)</u>	<u>3</u>	<u>(42)</u>

Property tax, income surtax and unrestricted state grants account for 71% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 92% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$2,354,296 and expenses were \$2,399,187. In a difficult budget year with state revenue being decreased well into the year, the District was almost able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities
(Expressed in Thousands)

	Total Cost of Services	Net Cost of Services
Instruction	\$ 1,647	1,138
Support services	644	644
Other expenses	108	31
Totals	<u>\$ 2,399</u>	<u>1,813</u>

- The cost financed by users of the District's programs was \$257,456.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$328,725.
- The net cost of governmental activities was financed with \$750,789 in property and other taxes and \$988,728 in unrestricted state grants.

Business Type Activities

The major business type activity operated by the Moulton-Udell Community School District is the School Nutrition Program. The nutrition program received \$57,162 in non operating revenue, mostly federal reimbursements for school breakfast and lunch programs. Local sales accounted for \$33,869 in revenue.

Revenue from local sales decreased almost \$4,000 from fiscal 2003. An increase in federal reimbursements received during the year and a reduction in expenses of over \$1,000 helped improve the funds net assets by \$3,124. Total expenditures for the year were \$87,907.

The continuing effect of enrollment decreases and the need to replace obsolete or worn kitchen equipment will continue to place pressure on the nutrition program. Breakfast and lunch fees were increased for the 2005 school year.

INDIVIDUAL FUND ANALYSIS

As previously noted, Moulton-Udell Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$369,527, well below last year's ending fund balances of \$395,112.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. State aid was cut, and the District already made expenditure commitments. As a result, the District had to use carryover fund balance in order to meet the financial obligations during the year.
- The General Fund balance decreased from \$339,581 to \$335,418, due mainly to the in-year reduction in state aid and existing expenditure commitments of the District.
- The Physical Plant and Equipment Levy (PEL) Fund balance decreased from a balance of \$4,124 in fiscal 2003 to (\$4,331) in fiscal 2004. While revenues remained approximately the same, the District substantially increased spending from the PEL Fund. Voter approval of the SILO or sales tax in the county will alleviate pressure on the PEL Fund in future years.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$26,609 at June 30, 2003 to \$29,733 at June 30, 2004, representing an increase of approximately 12%. The continued pressure of declining enrollment and needed equipment updating will continue to pressure this fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, Moulton-Udell Community School District amended its annual budget one time to reflect additional expenditures.

The District's state foundation aid receipts were almost \$25,000 less than budgeted receipts, a variance of 2.25%. This variance resulted in the District receiving less in state aid than originally anticipated. The District's revenues were \$329,920 less than budgeted revenues, a variance of 12%.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practices, the certified budget was exceeded in the other expenditures functional area due to the auditors changing of where expenses were recorded after the end of the fiscal year which did not allow time to amend the budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$1.0 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of .1% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$68,196.

The original cost of the District's capital assets was \$2.0 million. Governmental funds account for \$1.9 million, with the remainder of \$0.1 million accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Capital Assets, net of Depreciation
(Expressed in Thousands)

	Governmental Activities	Business type Activities	Total District
	June 30, 2004	June 30, 2004	June 30, 2004
Land	\$ 2	-	2
Buildings	773	-	773
Furniture and equipment	243	9	252
Totals	<u>\$ 1,018</u>	<u>9</u>	<u>1,027</u>

Long-Term Debt

At June 30, 2004, the District had very little long-term debt and no bonded indebtedness. The District owes \$51,389 for one last installment on a school bus and for a copier lease. This represents a decrease of approximately 25% from last year. (See Figure A-7) The last payment of the bonds sold to finance the elementary building was made in the 2003 fiscal year. Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

In March 2004, the District's voters authorized the collection of the SILO tax which is a local option sales and use tax. This will help maintaining and repairing the building and grounds and provide property tax relief.

Figure A-7
Outstanding Long-term Obligations
(Expressed in Thousands)

	Governmental Activities
	June 30, 2004
Capitalized lease obligations	\$ 37
installment agreement payable	14
Totals	<u>\$ 51</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District has experienced declining enrollment for the past three years, the District expects this trend to continue the next few years.
- The District's voters approved the SILO tax last spring and determined, due to safety precautions, three busses must be replaced during fiscal 2005 at a cost of \$180,000. To pay for these buses, the District will use a combination of resources from the General Fund and the Physical Plant and Equipment Levy Fund.
- The District's voters approved the SILO tax last spring which will alleviate pressure on the PPEL fund and allow for needed building improvements and equipment purchases.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Marilyn Wood, District Secretary, Moulton-Udell Community School District, 305 East 8th, Moulton, Iowa, 52572.

Basic Financial Statements

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents:			
ISCAP	\$ 571,494	-	571,494
Other	373,104	12,598	385,702
Receivables:			
Property tax:			
Delinquent	8,541	-	8,541
Succeeding year	659,500	-	659,500
Accounts	11,554	-	11,554
Accrued interest:			
ISCAP	1,638	-	1,638
Other	8	-	8
Due from other governments	105,267	-	105,267
Inventories	-	7,905	7,905
Capital assets, net of accumulated depreciation	1,017,816	9,268	1,027,084
Total assets	2,748,922	29,771	2,778,693
Liabilities			
Excess of warrants issued over bank balance	4,714	-	4,714
Accounts payable	61,339	38	61,377
Due to other governments	15,803	-	15,803
Other payables	5,172	-	5,172
Accrued interest payable	339	-	339
Deferred revenue - succeeding year property tax	659,500	-	659,500
ISCAP warrants payable	568,000	-	568,000
ISCAP accrued interest payable	2,483	-	2,483
Long-term liabilities:			
Portion due within one year:			
Capitalized lease obligation	10,240	-	10,240
Installment agreement payable	14,500	-	14,500
Portion due after one year:			
Capitalized lease obligation	26,649	-	26,649
Total liabilities	1,368,739	38	1,368,777
Net assets			
Invested in capital assets, net of related debt	966,427	9,268	975,695
Restricted for:			
Management levy	9,381	-	9,381
Physical plant and equipment levy	(4,331)	-	(4,331)
Other special revenue purposes	29,059	-	29,059
Unrestricted	379,647	20,465	400,112
Total net assets	\$ 1,380,183	29,733	1,409,916

See notes to financial statements.

Moulton-Udell Community School District

Statement of Activities

Year ended June 30, 2004

Functions / Programs	Expenses	Program Revenues		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 1,027,382	160,936	119,023	-
Special instruction	333,913	-	114,206	-
Other instruction	285,848	96,520	18,078	-
	<u>1,647,143</u>	<u>257,456</u>	<u>251,307</u>	<u>-</u>
Support services:				
Student services	26,559	-	-	-
Instructional staff services	8,888	-	-	-
Administration services	300,421	-	-	-
Operation and maintenance of plant services	183,118	-	-	-
Transportation services	124,441	-	-	-
	<u>643,427</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-instructional programs	<u>225</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Long-term debt interest	2,002	-	28	-
AEA flowthrough	77,390	-	77,390	-
Depreciation (unallocated)*	29,000	-	-	-
	<u>108,392</u>	<u>-</u>	<u>77,418</u>	<u>-</u>
Total governmental activities	<u>2,399,187</u>	<u>257,456</u>	<u>328,725</u>	<u>-</u>
Business type activities:				
Non-instructional programs:				
Food service operations	<u>87,907</u>	<u>33,869</u>	<u>57,094</u>	<u>-</u>
Total	<u>\$ 2,487,094</u>	<u>291,325</u>	<u>385,819</u>	<u>-</u>

General Revenues:

Property tax levied for:
 General purposes
 Capital outlay
 Income surtax
 Unrestricted state grants
 Unrestricted investment earnings
 Other

Total general revenues

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

* This amount excludes the depreciation that is included in the direct expenses of the various programs

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(747,423)	-	(747,423)
(219,707)	-	(219,707)
(171,250)	-	(171,250)
(1,138,380)	-	(1,138,380)
(26,559)	-	(26,559)
(8,888)	-	(8,888)
(300,421)	-	(300,421)
(183,118)	-	(183,118)
(124,441)	-	(124,441)
(643,427)	-	(643,427)
(225)	-	(225)
(1,974)	-	(1,974)
-	-	-
(29,000)	-	(29,000)
(30,974)	-	(30,974)
(1,813,006)	-	(1,813,006)
-	3,056	3,056
(1,813,006)	3,056	(1,809,950)
\$ 673,341	-	673,341
31,471	-	31,471
45,977	-	45,977
988,728	-	988,728
12,478	68	12,546
16,120	-	16,120
1,768,115	68	1,768,183
(44,891)	3,124	(41,767)
1,425,074	26,609	1,451,683
\$ 1,380,183	29,733	1,409,916

Moulton-Udell Community School District

Exhibit C

Balance Sheet
Governmental Funds

June 30, 2004

	General	Nonmajor Special Revenue	Total
Assets			
Cash and pooled investments:			
ISCAP	\$ 571,494	-	571,494
Other	334,447	38,657	373,104
Receivables:			
Property tax:			
Delinquent	7,804	737	8,541
Succeeding year	622,500	37,000	659,500
Accounts	11,514	40	11,554
Accrued interest:			
ISCAP	1,638	-	1,638
Other	6	2	8
Due from other governments	105,267	-	105,267
Total assets	\$ 1,654,670	76,436	1,731,106
Liabilities and Fund Balances			
Liabilities:			
Excess of warrants issued over bank balance	\$ -	4,714	4,714
Accounts payable	60,726	613	61,339
Due to other governments	15,803	-	15,803
Other payables	5,172	-	5,172
ISCAP warrants payable	568,000	-	568,000
ISCAP accrued interest payable	2,483	-	2,483
Deferred revenue:			
Succeeding year property tax	622,500	37,000	659,500
Other	44,568	-	44,568
Total liabilities	1,319,252	42,327	1,361,579
Fund balances:			
Unreserved	335,418	34,109	369,527
Total fund balances	335,418	34,109	369,527
Total liabilities and fund balances	\$ 1,654,670	76,436	1,731,106

See notes to financial statements.

Moulton-Udell Community School District

Exhibit D

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2004

Total fund balances of governmental funds (page 21)	\$ 369,527
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,017,816
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	44,568
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(339)
Long-term liabilities, including capitalized lease obligations and installment agreement payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(51,389)</u>
Net assets of governmental activities (page 18)	<u>\$1,380,183</u>

See notes to financial statements.

Moulton-Udell Community School District

Exhibit E

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2004

	General	Nonmajor Governmental Funds	Total
Revenues:			
Local sources:			
Local tax	\$ 689,065	60,835	749,900
Tuition	150,002	-	150,002
Other	61,055	97,054	158,109
State sources	1,179,741	77	1,179,818
Federal sources	155,327	-	155,327
Total revenues	2,235,190	157,966	2,393,156
Expenditures:			
Current:			
Instruction:			
Regular instruction	1,014,463	3,838	1,018,301
Special instruction	332,629	1,284	333,913
Other instruction	195,509	89,988	285,497
	1,542,601	95,110	1,637,711
Support services:			
Student services	26,438	121	26,559
Instructional staff services	8,854	34	8,888
Administration services	301,521	1,438	302,959
Operation and maintenance of plant services	187,430	23,843	211,273
Transportation services	95,119	10,322	105,441
	619,362	35,758	655,120
Non-instructional programs	-	225	225
Other expenditures:			
Long-term debt:			
Principal	-	46,175	46,175
Interest and fiscal charges	-	2,120	2,120
AEA flowthrough	77,390	-	77,390
	77,390	48,295	125,685
Total expenditures	2,239,353	179,388	2,418,741
Excess (deficiency) of revenues over (under) expenditures	(4,163)	(21,422)	(25,585)
Other financing sources (uses):			
Operating transfers in	-	63,151	63,151
Operating transfers out	-	(63,151)	(63,151)
Total other financing sources (uses)	-	-	-
Net change in fund balances	(4,163)	(21,422)	(25,585)
Fund balances beginning of year	339,581	55,531	395,112
Fund balances end of year	\$ 335,418	34,109	369,527

See notes to financial statements.

Moulton-Udell Community School District

Exhibit F

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2004

Net change in fund balances - total governmental funds (page 23) **\$ (25,585)**

***Amounts reported for governmental activities in the
Statement of Activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 68,700	
Depreciation expense	<u>(66,439)</u>	2,261

Income surtax is not collected until several months after year end is not considered available revenue and is deferred in the governmental funds. (38,860)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues, as follows:

Issued	(29,000)	
Repaid	<u>46,175</u>	17,175

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

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Change in net assets of governmental activities (page 20) **\$ (44,891)**

See notes to financial statements.

Moulton-Udell Community School District

Exhibit G

Statement of Net Assets
Proprietary Fund

June 30, 2004

	<u>School Nutrition</u>
Assets	
Cash and cash equivalents	\$ 12,598
Inventories	7,905
Capital assets, net of accumulated depreciation	<u>9,268</u>
Total assets	<u>29,771</u>
Liabilities	
Accounts payable	<u>38</u>
Total liabilities	<u>38</u>
Net Assets	
Invested in capital assets, net of related debt	9,268
Unrestricted	<u>20,465</u>
Total net assets	<u>\$ 29,733</u>

See notes to financial statements.

Moulton-Udell Community School District

Exhibit H

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2004

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	<u>\$ 33,869</u>
Operating expenses:	
Non-instructional programs:	
Food service programs:	
Salaries	35,992
Benefits	4,667
Purchased services	745
Supplies	44,746
Depreciation	1,757
Total operating expenses	<u>87,907</u>
Operating loss	<u>(54,038)</u>
Non-operating revenues:	
State sources	1,559
Federal sources	55,535
Interest income	68
Total non-operating revenues	<u>57,162</u>
Change in net assets	3,124
Net assets beginning of year	<u>26,609</u>
Net assets end of year	<u><u>\$ 29,733</u></u>

See notes to financial statements.

Moulton-Udell Community School District

Exhibit I

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2004

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 33,869
Cash paid to employees for services	(40,659)
Cash paid to suppliers for goods and services	(37,024)
Net cash used by operating activities	<u>(43,814)</u>
Cash flows from non-capital financing activities:	
State grants received	1,559
Federal grants received	46,524
Net cash provided by non-capital financing activities	<u>48,083</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(456)
Net cash used by capital and related financing activities	<u>(456)</u>
Cash flows from investing activities:	
Interest on investments	<u>68</u>
Net increase in cash and cash equivalents	3,881
Cash and cash equivalents at beginning of year	8,717
Cash and cash equivalents at end of year	<u><u>\$ 12,598</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (54,038)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	9,011
Depreciation	1,757
(Increase) in inventories	(582)
Increase in accounts payable	38
Net cash used by operating activities	<u><u>\$ (43,814)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$9,011 of federal commodities.

See notes to financial statements.

Moulton-Udell Community School District

Exhibit J

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2004

	<u>Agency</u>
Assets	
Cash and pooled investments	<u>\$ 6,338</u>
Total assets	<u>6,338</u>
Liabilities	
Due to other governments	<u>6,338</u>
Total liabilities	<u>\$ 6,338</u>

See notes to financial statements.

Moulton-Udell Community School District

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

Moulton-Udell Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Moulton and Udell, Iowa, and the predominate agricultural territory of Appanoose and Davis Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Moulton-Udell Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Moulton-Udell Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Appanoose County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for Governmental, proprietary and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. **Measurement Focus and Basis of Accounting**

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 1/2% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as property tax receivable, and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate vacation time; however, the unused amounts are not paid at termination, death or retirement. Consequently, no accrual is made in the financial statements for compensated absences.

Long-term liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the other expenditures functional area exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$10,371 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Special Revenue:		
Physical Plant and Equipment Levy	Debt Service	\$ 14,856
Debt Service	Special Revenue:	
	Physical Plant and Equipment Levy	<u>48,295</u>
Total		<u>\$ 63,151</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2003-04B	1/30/04	1/28/05	\$ 301,036	1,638	299,000	2,483
2004-05A	6/30/04	6/30/05	270,458	-	269,000	-
Total			<u>\$ 571,494</u>	<u>1,638</u>	<u>568,000</u>	<u>2,483</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2004 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-04A	\$ -	36,000	36,000	-

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04A	2.000%	2.603%
2003-04B	2.000%	1.392%
2004-05A	3.000%	2.463%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year, as restated (note 12)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,000	-	-	2,000
Total capital assets not being depreciated	2,000	-	-	2,000
Capital assets being depreciated:				
Buildings	1,490,000	-	-	1,490,000
Furniture and equipment	387,557	68,700	-	456,257
Total capital assets being depreciated	1,877,557	68,700	-	1,946,257
Less accumulated depreciation for:				
Buildings	688,200	29,000	-	717,200
Furniture and equipment	175,802	37,439	-	213,241
Total accumulated depreciation	864,002	66,439	-	930,441
Total capital assets being depreciated, net	1,013,555	2,261	-	1,015,816
Governmental activities capital assets, net	\$ 1,015,555	2,261	-	1,017,816

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Furniture and equipment	\$ 21,556	456	-	22,012
Less accumulated depreciation	10,987	1,757	-	12,744
Business type activities capital assets, net	\$ 10,569	(1,301)	-	9,268

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular	\$ 9,081
Other	351

Support services:

Administration	8,563
Operation and maintenance of plant	444
Transportation	19,000
	37,439

Unallocated	29,000
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Total depreciation expense - governmental activities	\$ 66,439
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Business type activities:

Food service operations	\$ 1,757
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(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Capitalized lease obligations	\$ 68,564	-	31,675	36,889	10,240
Installment agreement payable	-	29,000	14,500	14,500	14,500
Total	\$ 68,564	29,000	46,175	51,389	24,740

Capitalized Lease Obligation

The District has entered into capital leases for the purchase of electronic equipment. The assets have been capitalized at cost.

Future minimum lease payments for the capital lease commitment are as follows:

Year Ended- June 30	Amount
2005	\$10,980
2006	13,176
2007	13,176
2008	1,098
Total	38,430
Less amount attributable to interest	1,541
Present value of minimum lease payments	\$36,889

The interest rates on the capitalized lease is 2.75%, and is imputed based on the lessee's incremental borrowing rate. Payments under capital lease purchase agreements for the year ended June 30, 2004 totaled \$31,675.

Installment Agreement Payable

The District entered into an installment agreement payable for a bus purchase. The total amount of the purchase was \$29,000. Of this, \$14,500 was paid in fiscal year 2004 with the balance of \$14,500, plus interest of \$580 to be paid in fiscal year 2005. The interest rate on this installment agreement is 4%.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$72,662, \$74,705, and \$79,009 respectively, equal to the required contributions for each year.

(8) Risk Management

The District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (the Association) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

Each member's contributions to the Association funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004, were \$255,095.

Payments from participating members are the sole source for paying claims and establishing reserves for ISEBA self-funded programs. Stop loss insurance is purchased by the Association to protect against large claims, but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. The Association will pay claims incurred before the termination date.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Related Party Transaction

The District had business transactions totaling \$1,052 between the District and District officials during the year ended June 30, 2004.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$77,390 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(11) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2004, disbursements in the other expenditure functional area exceeded the amount budgeted.

(12) Accounting Change and Restatements

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District’s programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund		
	General	Nonmajor Special Revenue	Total
Net assets June 30, 2003, as previously reported	<u>\$ 339,581</u>	<u>55,531</u>	395,112
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$864,002			1,015,555
Long-term Liabilities:			
Capitalized lease obligations			(68,564)
Accrued interest payable			(457)
Deferred revenue			<u>83,428</u>
Net assets July 1, 2003, as restated			<u>\$ 1,425,074</u>

Required Supplementary Information

Moulton-Udell Community School District

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance
Revenues:						
Local sources	\$ 1,058,011	33,937	1,091,948	1,292,433	1,292,433	(200,485)
State sources	1,179,818	1,559	1,181,377	1,286,674	1,286,674	(105,297)
Federal sources	155,327	55,535	210,862	235,000	235,000	(24,138)
Total revenues	2,393,156	91,031	2,484,187	2,814,107	2,814,107	(329,920)
Expenditures/Expenses:						
Instruction	1,637,711	-	1,637,711	2,095,763	2,090,000	452,289
Support services	655,120	-	655,120	797,760	950,000	294,880
Non-instructional programs	225	87,907	88,132	140,472	160,000	71,868
Other expenditures	125,685	-	125,685	82,950	80,000	(45,685)
Total expenditures/expenses	2,418,741	87,907	2,506,648	3,116,945	3,280,000	773,352
Excess (deficiency) of revenues over (under) expenditures/expenses	(25,585)	3,124	(22,461)	(302,838)	(465,893)	443,432
Other financing sources, net	-	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing uses	(25,585)	3,124	(22,461)	(302,838)	(465,893)	443,432
Balances beginning of year	395,112	26,609	421,721	303,182	303,182	118,539
Balances end of year	\$ 369,527	29,733	399,260	344	(162,711)	561,971

See accompanying independent auditor's report.

Moulton-Udell Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$163,055.

During the year ended June 30, 2004, disbursements in the other expenditures function exceeded the amounts budgeted.

Other Supplementary Information

Moulton-Udell Community School District

Schedule 1

Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2004

	Special Revenue			Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	
Assets				
Cash and pooled investments	\$ 9,025	29,632	-	38,657
Receivables:				
Property tax:				
Delinquent	356	-	381	737
Succeeding year	37,000	-	-	37,000
Accounts	-	40	-	40
Accrued interest	-	-	2	2
Total assets	\$ 46,381	29,672	383	76,436
Liabilities and Fund Equity				
Liabilities:				
Excess of warrants issued over bank balance	\$ -	-	4,714	4,714
Accounts payable	-	613	-	613
Deferred revenue:				
Succeeding year property tax	37,000	-	-	37,000
Total liabilities	37,000	613	4,714	42,327
Fund equity:				
Unreserved fund balances	9,381	29,059	(4,331)	34,109
Total liabilities and fund equity	\$ 46,381	29,672	383	76,436

See accompanying independent auditor's report.

Moulton-Udell Community School District

Schedule 2

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2004

	Special Revenue				Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	
Revenues:					
Local sources:					
Local tax	\$ 29,404	-	31,431	-	60,835
Other	119	96,725	182	28	97,054
State sources	37	-	40	-	77
Total revenues	29,560	96,725	31,653	28	157,966
Expenditures:					
Current:					
Instruction:					
Regular instruction	3,838	-	-	-	3,838
Special instruction	1,284	-	-	-	1,284
Other instruction	941	89,047	-	-	89,988
Support services:					
Student services	121	-	-	-	121
Instructional staff services	34	-	-	-	34
Administration services	1,438	-	-	-	1,438
Operation and maintenance of plant services	17,174	-	6,669	-	23,843
Transportation services	10,322	-	-	-	10,322
Non-instructional programs:					
Food service operations	225	-	-	-	225
Other expenditures:					
Long-term debt:					
Principal	-	-	-	46,175	46,175
Interest and fiscal charges	-	-	-	2,120	2,120
Total expenditures	35,377	89,047	6,669	48,295	179,388
Excess (deficiency) of revenues over (under) expenditures	(5,817)	7,678	24,984	(48,267)	(21,422)
Other financing sources (uses):					
Operating transfers in	-	-	14,856	48,295	63,151
Operating transfers out	-	-	(48,295)	(14,856)	(63,151)
Total other financing sources (uses)	-	-	(33,439)	33,439	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(5,817)	7,678	(8,455)	(14,828)	(21,422)
Fund balances beginning of year	15,198	21,381	4,124	14,828	55,531
Fund balances end of year	\$ 9,381	29,059	(4,331)	-	34,109

See accompanying independent auditor's report.

Moulton-Udell Community School District

Schedule 3

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
SADD	\$ 2,630	3,017	2,843	2,804
Honor Society	700	387	724	363
Annual	2,700	5,844	2,550	5,994
Athletics	4,698	28,754	25,558	7,894
Cheerleaders	210	1,278	813	675
Drama	117	191	291	17
Student Council	(22)	7,532	5,787	1,723
FFA	3,857	22,535	21,940	4,452
Class of -				
2002	(348)	450	-	102
2003	(311)	311	-	-
2004	(571)	12,699	12,028	100
2005	6,652	8,139	11,116	3,675
2006	83	339	-	422
2007	108	23	61	70
2008	50	242	215	77
2009	-	40	-	40
2012	-	127	-	127
2013	-	41	127	(86)
2014	-	191	192	(1)
2015	-	541	367	174
2016	-	41	41	-
Art Club	475	64	173	366
Spanish Club	33	-	-	33
Flag Corps	63	-	272	(209)
Interest	444	-	444	-
Musicals	-	686	-	686
Popcorn Machine	-	205	1,103	(898)
Elementary	-	1,120	848	272
High School	-	130	-	130
Instrumental Music	-	931	947	(16)
Speech	(187)	867	607	73
Total	\$ 21,381	96,725	89,047	29,059

See accompanying independent auditor's report.

Moulton-Udell Community School District

Schedule 4

Schedule of Changes in Fiduciary Assets and Liabilities -
Agency Fund

Year ended June 30, 2004

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ 8,318	5,492	7,472	6,338
Total assets	\$ 8,318	5,492	7,472	6,338
Liabilities				
Due to other governments	\$ 8,318	5,492	7,472	6,338
Total liabilities	\$ 8,318	5,492	7,472	6,338

See accompanying independent auditor's report.

Moulton-Udell Community School District

Schedule 5

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Two Years

	Modified Accrual Basis	
	2004	2003
Revenues:		
Local sources:		
Local tax	\$ 749,900	721,875
Tuition	150,002	147,207
Other	158,109	123,250
State sources	1,179,818	1,288,397
Federal sources	155,327	129,829
Total	<u>\$ 2,393,156</u>	<u>2,410,558</u>
Expenditures:		
Instruction:		
Regular instruction	\$ 1,018,301	1,000,615
Special instruction	333,913	299,717
Other instruction	285,497	260,885
Support services:		
Student services	26,559	6,776
Instructional staff services	8,888	39,021
Administration services	302,959	264,004
Operation and maintenance of plant services	211,273	176,317
Transportation services	105,441	132,985
Non-instructional programs	225	261
Other expenditures:		
Facilities acquisition	-	91,889
Long-term debt:		
Principal	46,175	156,772
Interest and other charges	2,120	10,589
AEA flowthrough	77,390	83,845
Total	<u>\$ 2,418,741</u>	<u>2,523,676</u>

See accompanying independent auditor's report.

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
103 BENTON AVENUE EAST
ALBIA, IOWA 52531

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Education of
Moulton-Udell Community School District

We have audited the financial statements of the Moulton-Udell Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 3, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Moulton-Udell Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items II-G-04, II-H-04, II-K-04, and II-L-04 in the accompanying Schedule of Findings.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Moulton-Udell Community School District's financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect Moulton-Udell Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions describe above, we believe items I-A-04, I-B-04, and I-C-04 are material weaknesses. Prior year reportable conditions have been partially resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Moulton-Udell Community School District and other parties to whom Moulton-Udell Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Moulton-Udell Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Gerdes, LLP
Certified Public Accountants

September 3, 2004

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- I-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that one employee receives money, deposits money to the bank, posts the cash receipts to the receipts journal, prepares the checks, posts the checks to the cash disbursements journal, posts the general ledger and reconciles the bank account.

Recommendation - We realize that it is difficult to segregate duties with a limited number of office employees. However, the District should continue to review its operating procedures to obtain the maximum control possible under the circumstances.

Response - We will continue to investigate alternatives.

Conclusion - Response accepted.

- I-B-04 Fixed Assets - Fixed assets were not periodically counted and reconciled to the fixed asset listing by an independent person. Also, the District's fixed asset listing is not kept up to date. Generally accepted accounting principles require that an accurate fixed asset listing be maintained.

Recommendation - To provide additional control over the proper recording of fixed assets, fixed assets should be periodically counted and reconciled to the fixed asset listing by a person who does not have custody of the fixed assets. Also, the fixed asset listing should be kept up to date.

Response - We will review this situation.

Conclusion - Response accepted.

- I-C-04 Timely Deposit of Payroll Tax and Withholding - The District does not have procedures in place to ensure payroll taxes and withholdings are transmitted timely to the federal and state government. Because of the lack of timely deposit, approximately \$8,800 in interest and penalty was paid in fiscal year 2004 and 2005.

Recommendation - The District implement procedures to ensure all payroll taxes due to the federal and state government are transmitted timely.

Response - We will implement this recommendation

Conclusion - Response accepted.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

II-A-04 Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget - Disbursements for the year ended June 30, 2004, exceeded the amended certified budget amounts in the other expenditures functional area. The original budget publication did not document the date of the public hearing on the budget. The budget amendment was not published between ten and twenty days prior to the public hearing, as required per the Code of Iowa.

Recommendation – The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget. Also, procedures should be implemented to ensure budget publication requirements are met pursuant to the Code of Iowa.

Response – We will amend our budget before disbursements exceed the budget, and ensure publication requirements are met in the future.

Conclusion – Response accepted.

II-C-04 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-E-04 Business Transactions – Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bryanna Kaster, Spouse of Board Member, Owner of Country Lane Graphics	Supplies	\$1,052

In accordance with an Attorney General's opinion dated November 9, 1976, this transaction does not appear to represent a conflict of interest.

II-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2004

- II-G-04 Board Minutes – Instances were noted where invoices were paid even though the invoices were never approved by the Board. The Code of Iowa requires that all invoices be approved by the Board.

Instances were noted where the specific exemption for holding a closed session and the vote of each board member to hold a closed session was not documented in the Board minutes as required per the Code of Iowa. In some instances, the list of claims allowed did not document the purpose of the claim, and in other instances, the list of claims allowed were not published. Section 279.35 of the Code of Iowa requires that the list of claims allowed (including purpose of the claim) be published in the newspaper within two weeks of the proceedings. In one case, the Board minutes were not signed by the Board President and Board Secretary. In another instance, the list of Board members present at the Board meeting was not documented in the Board minutes.

Recommendation – The District implement procedures to ensure compliance with the Code of Iowa in regards to approval of invoices, closed sessions, publications, signatures and Board member attendance.

Response – We will implement these recommendations.

Conclusion – Response accepted.

- II-H-04 Certified Enrollment – The number of basic resident students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification Form for September 2003 was overstated by 10.1 students.

Recommendation – The District should contact the Iowa Department of Education and the Department of Management.

Response – We will contact the Iowa Department of Education and the Department of Management.

Conclusion – Response accepted.

- II-I-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

- II-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

- II-K-04 Financial Condition – Several student activity accounts and the Special Revenue – Physical Plant and Equipment Levy Fund had deficit balances at June 30, 2004.

Recommendation – The District should monitor these accounts and investigate alternatives to eliminate these deficits.

Response – We will continue to monitor the negative balance accounts.

Conclusion – Response accepted.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2004

- II-L-04 Payroll – Employee authorization for employee payroll deductions could not always be located.
- Instances were also noted where employees I9's could not be located. Also, not all non-exempt employees are required to keep timesheets, a non-exempt employee was not paid overtime for work in excess of 40 hours a week, and an individual employee was underpaid 7 ¼ hours. In some cases, the gross, social security, and medicare wage amount was not properly calculated.
- Recommendation – The District implement procedures to ensure written authorization for employee payroll deductions is retained. Also, I9's should be obtained for all employees, require timesheets and pay overtime to all non-exempt employees. In addition, procedures should be implemented to ensure all employees are properly paid and that the wage amounts are properly calculated.
- Response – We will implement these recommendations.
- Conclusion – Response accepted.
- II-M-04 Compliance – In one instance, the District did not issue an Internal Revenue Service 1099-Misc form to a vender. The salary publication, as required by Chapter 279.35 of the Code of Iowa was incorrect. The District overpaid another District \$1,339 for open enrollment. Not all pages of the invoices were cancelled.
- Recommendation – The District issue 1099-Misc forms as required, and ensure the salary publication is correct. The District should also implement procedures to ensure all invoices are paid at the correct amount, and that all pages of the invoice are cancelled.
- Response – We will implement this recommendation.
- Conclusion – Response accepted.
- II-N-04 Installment Agreement Payable – During the fiscal year, the District entered into an installment agreement payable for the purchase of a school bus. It does not appear the District followed Chapter 279.48 of the Code of Iowa in regards to this loan agreement.
- Recommendation – In the future, the District insure compliance with the Code of Iowa in regards to loan agreements.
- Response – We will implement this recommendation.
- Conclusion – Response accepted.